

Supporting Factors for Intensification of Islamic Banking in Indonesia

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Abstract

While I will state in my doctoral dissertation that a major factor in the intensification of Islamic banks in Indonesia is the government, this paper mainly refers to sufficient supply of qualified human resources, optimization of current market segmentation and funding structure, development of Islamic bank products for investment and collecting funds, and promotion of use of *sukuk* (Islamic bonds) by Islamic banks as supporting factors.

Qualified human resources consist of professionals and experts of Islamic banks. The number of professionals and experts can be increased through graduate and undergraduate schools of university maximally. And, they will be the key factors to progress the national education system and socialization of Islamic banking, which are expected to promote understanding of the Islamic banking by the citizens of Indonesia. The educational introduction of Islamic bank can be started from kindergarten school, to elementary school, junior high, high school, and university.

Current market segmentation of Islamic banks in Indonesia should be changed from enterprises of micro and small scale to those of medium and large scale. In tandem with this, the composition of main funding should be converted from short-term deposits to long-term savings funds. However, placement of funds itself could be more various from financing to other areas, such as investments in Islamic securities, Islamic equity participation, and others; as well as funding itself should be less concentrating into deposits and saving. These changes require development of more products of Islamic finance. Lastly, the use of *sukuk* in Indonesia should be activated, not only by the government to cover the state budget deficiency, but also by Islamic banks who need stable supply of financial resources.

Keywords

Indonesia, Islamic bank, Socialization of Islamic banking

インドネシアにおけるイスラーム銀行の強化拡充を促進する諸方策の考察

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要旨

この論文は、インドネシアにおけるイスラーム銀行とコンベンショナル銀行（従来型銀行）との比較を含むイスラーム銀行の現状の分析にもとづいて、イスラーム銀行が現在抱えているいく

つかの問題点を指摘するとともに、イスラーム銀行を強化拡充し、国民の間にその存在を周知するために必要な諸方策を提示するものである。あわせて、この論文では、なぜイスラーム銀行の強化拡充が必要なのかという理由が論じられている。とくに、イスラーム銀行の普及が外生的な要因によって激しく変動するインドネシアの金融システムの構造的な脆弱性を緩和することが期待されている。

イスラーム銀行の問題点ならびにその解決策としては、第一に、現在インドネシアでは、イスラーム銀行に関する質の高い専門的な実務家（プロフェッショナル）と研究者（エキスパート）が少なく、それがイスラーム銀行の普及の妨げとなっていることから、大学院で彼らを養成することが急務である。あわせて、幼稚園から大学に至る体系的なイスラーム銀行についての教育システムを構築し、国民のイスラーム銀行についての知識を高め、預金を拡大していくべきである（イスラーム銀行の社会化）。第二に、現状では、資金の運用が融資に偏り、資金の源泉が預金と貯蓄に偏っている。しかも、融資の対象が零細及び小規模企業に集中し、資金の源泉が短期預金に大きく依存していることが、構造的な脆弱性を著しく高める要因となっている。この問題を解決するには、イスラーム銀行が利用できる金融商品を開発し、多様化していかなければならない。第三に、このことと関連して、イスラーム銀行によるスクーク（イスラーム型債券）の利用による安定的な長期資金の調達が望まれる。

イスラーム銀行は利子の徴収を禁止するとともに、通貨の売買を一種の投機と見なし、それを禁止している。こうしたイスラーム銀行が利率と為替レートとの激しい変動を引き起こす国際金融危機に対してある程度の抵抗力をもっていることがしばしば指摘されている。この論文は、イスラーム銀行のインドネシアにおける普及のもっとも大きな理由として、この抵抗力に注目するものである。

キーワード

インドネシア、イスラーム銀行、イスラーム型銀行システムの社会化

1. Introduction

Islamic banks should grow more rapidly in Muslim-majority countries, such as Indonesia. This is due to the fact that the Islamic banks are based on Islamic religious law. Hence, they should be able to develop more rapidly in countries where the population is predominantly Muslim. Surprisingly, the development of Islamic banks in the largest Muslim-majority country in the world, Indonesia, is not as expected. Therefore, there must be many factors to be clarified about the paradox that is going on in Indonesia.

Indonesian government has been trying to

develop Islamic banks. However, the real conditions required by the government and the other concerned parties have been hard, because they have been, and still are considered vital to Indonesia. Most importantly, Islamic banking system in Indonesia is expected to stabilize Indonesia's financial system which is a part of the complexity of the conventional financial system of the world. The reasons are as follows:

The global financial crisis which occurs frequently weakens confidence in the global economic system and increases uncertainty about future macroeconomic trends. In such environment, the research on the global

financial crisis has found that Islamic financial activities are less vulnerable to monetary variables than conventional financial activities. This is due to the prohibition of interest and ethics and morals in the financial practices of Islamic banks which keep them away from speculative transactions. Their behaviors can reduce risk and increase the quality of liquidity management. In Islamic banking, knowledge, information, honesty, accountability and transparency are a key ingredient for success of Islamic banks and are critical to the performance of the market and business activities (Al-Roubaie, 2010). As a matter of fact, the level of non-performing loans of Islamic banks is small. This suggests that Islamic banking is resistible against crisis and promotes financial stability (Setiadi, 2012).

The first important effort of the Indonesia government was to introduce Islamic banking system in Indonesia through the Act No. 7 of 1992 dealing the Islamic banking in Indonesia (Bank Indonesia, 2013a). After promulgation of the Act, the first Islamic bank in Indonesia was born, called Bank Muamalat Indonesia (BMI, 2013).

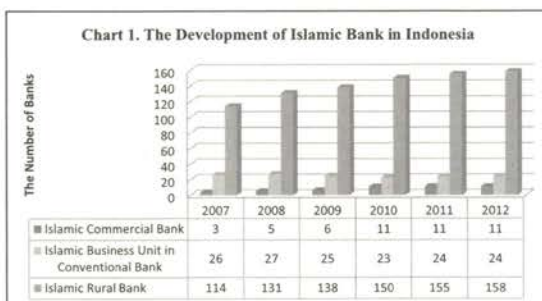
The second effort of the government of Indonesia was the socialization of the Islamic banking system. In truth, socialization started long ago, but the problem remains that there are still many Indonesian people who do not

understand Islamic banking well. It is necessary to review the reason why this problem arose and to consider the solutions to it.

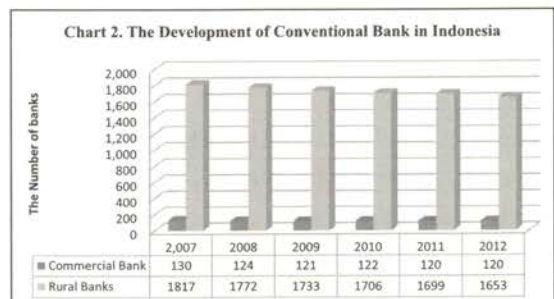
Chart 1 shows that starting from 2007 to 2008 and 2009, the number of Islamic banks in Indonesia increased from 3 to 5 and 6 units respectively. In contrast, during the three years of 2010, 2011, and 2012, the number of Islamic banks did not change in the number of 11. Islamic banks in Indonesia during these three years showed no progress. The number of Islamic business units in conventional banks has been volatile from 23 to 27 units between 2007 and 2012. The number of the Islamic rural banks is raised steadily from 114 units in 2007 to 158 units in 2012.

When compared with Chart 2 shown below, the number of Islamic banks in Indonesia is still about 9 per cent of the number of conventional banks in the year of 2012. It is a very small rate. Moreover, taking into consideration of the fact that Indonesia is the largest Muslim populated country in the world, this reality is a kind of paradox. Majority population is Muslim, but the existing facility and conditions of Islamic banking services are minor. It cannot be appropriate, needs to be corrected in order to create a good environment.

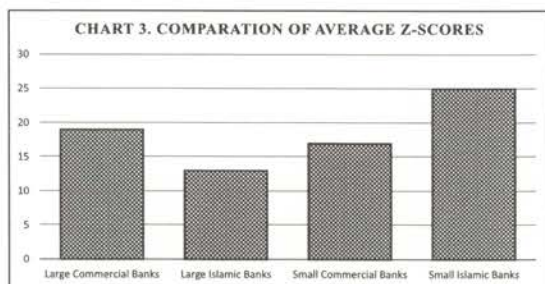
Chart 2 describes that there is a tendency of reduction in the number of conventional banks,



Source: Bank Indonesia, 2013b.



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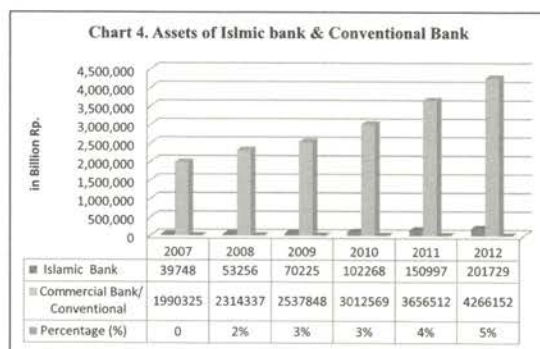
Source: Cihak and Hesse, 2008: 16.

both commercial banks and rural banks, from 2007 to 2012. However, the existing conventional banks are still numerous. The number of conventional banks decreased due to the conversion into Islamic banks. Of course, from a side of Islamic banks, it is a good trend. This also relates to the difficulty of the rules of establishing new conventional banks under the authorization of the central bank. On the other hand, the establishment of Islamic banks in Indonesia became easier under the authorization of the central bank.

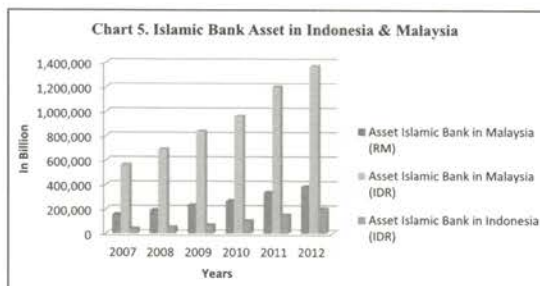
While Islamic banks are currently less cost effective than conventional banks, quality of assets of the formers is higher than that of the latters. It means that high quality asset is not always equal to cost effectiveness (Beck, Kunt, and Merrouche, 2013). Relating to this, Cihak and Hesse measured stability of conventional/commercial banks and Islamic banks, using the average Z-Scores. Stability are measured by quality of assets and cost effectiveness. The results shown in Chart 3 can be summarized as follows: (1) large conventional/commercial banks still tend to be more financially stable than large Islamic banks; (2) In contrast, small Islamic banks tend to be more financially stable than either small conventional/commercial banks or large conventional/commercial banks (Cihak and Hesse, 2008).

Another issue is that the amount of assets of Islamic banks is still small when it is compared with that of conventional banks. The Islamic banking asset in Indonesia is still 5 percent of the conventional banking asset, as indicated below (Chart 4). Moreover, although Indonesia is a big country and the Muslim population in Indonesia is larger than in Malaysia, the assets of Islamic banking in Malaysia have reached to Rp. 1.367.836 Billion or US\$ 120.492.952.783 in 2012 (Chart 5).

Chart 5 also illustrates that the growth of assets of Islamic banks in Malaysia has been remarkable since 2007. Every year they rose continuously at high rate until the year of 2012. Development of Islamic banks is very remarkable and conducive in Malaysia. On the other hand, if compared between the assets of Islamic banks and those of conventional banks in Indonesia until the end of 2012, the former



Source: Bank Indonesia, 2013b.



Source: Central Bank of Malaysia, 2013.

have reached to only 5 per cent of the latter (Chart 4). The Islamic bank asset in Indonesia is still so small that they have got serious attention from the government. The 5 per cent, absolutely low level itself, was the target set by the government at the end of 2008 (Kasri, Undated).

A research of Markplus's (a famous marketing researcher in Indonesia) research demonstrates that most people still prefer conventional banks to Islamic banks. According to his research, respondents who deposit all their money with conventional banks comprise the largest segment. Besides, the percentage of respondents who do not rely on Islamic banks is 83.6 per cent. These results make us convinced that it is necessary for Islamic banks, banking regulators, and all stakeholders in Indonesia to make strong and serious efforts to promote Islamic banking system and educate the public (Ismal, 2013: 35).

The pace of growth of Islamic banking can be said to be relatively higher, but the pace of growth of assets of them are relatively slower. At any rate, they which restrain the role of Islamic banks in the Indonesian national economy into low level, as will be discussed below. In spite of this, Islamic banks can potentially contribute greatly to the national economy of Indonesia (Siregar and Ilyas, 2011).

2. Problems for Intensification of Islamic Banking in Indonesia

Problems for intensification of Islamic banks in Indonesia include many factors. They are:

a. Insufficiency of Human Resources.

Islamic banks in Indonesia need as many as 900,000 trained people for the next four years (Setyowato, 2013). From these data, it is evident that the development of Islamic banks

in Indonesia has crucial barriers in the field of human resources. Human resources for Islamic banks are divided into two categories. Firstly, human resources are needed for Islamic banking operations. Human resource like this is what is called the human-resource professionals of Islamic banks. Secondly, human resources are needed for experts in Islamic banks. Human resources of the second category will be needed to develop some new products of Islamic banks and research new findings in Islamic banks.

Indonesia still lacks human resources either in the first or in the second. This is the obstacle against intensification of Islamic banks in Indonesia. Currently, to cover the lack of human resources a short course on Islamic banking is provided for new employees. This way can be called the firefighting systems.

Some underlying causes can be found for the lack of human resources, such as: (a) The lack of formal institution giving training in Islamic banking and finance, (b) The lack of informal institution giving training in Islamic banking and finance, (c) The lack of books on Islamic banking and finance, and (d) No Islamic banking and finance curriculums at any level of the national education system (Ismal, 2013: 25).

b. Unoptimal market segmentation

Lendings of Islamic banks in Indonesia mainly focus on small and medium industries. This is partly caused by the fact that resources available in the majority of Islamic banks are short-term funds, as explained in the next section (c). This makes it difficult for Islamic banks to finance more medium and large companies seriously in the long-term. As a result, the revenue of Islamic banks in

Indonesia is relatively small because Islamic banks finance exclusively companies of small and medium scale whose profits are relatively small. Islamic banks in Indonesia cannot be confident if their revenues continue to be stagnate, which discourages depositors from their money to Islamic banks in the long-term. Here we can see a kind of vicious circle.

Chart 6 reveals that the financing of Islamic banks in Indonesia is still focused on small and medium enterprises. Lending the small and medium enterprise group from 2007 to 2012 continues to dominate the financing of Islamic banks in Indonesia. It is very clear from this that Islamic banks in Indonesia have focused mainly on the class of small and medium enterprises.

c. Unoptimal funding structure

The funding structure from a third party (investor or depositor) in Islamic banks in Indonesia is still dominated by the short-term deposits. This makes it difficult for Indonesia's Islamic banks to finance large-scale projects (see the former section). As a result, the profit is also not large. Furthermore, as already indicated, the assets of Islamic banks in Indonesia are still below 5 per cent of the total assets of conventional banks in Indonesia.

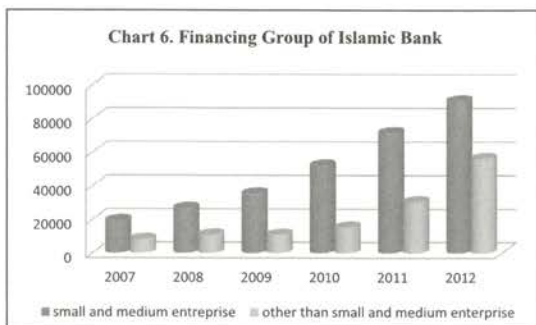
Chart 7 explains that the main sources of

funds of Islamic banks in Indonesia are short-term deposit funds less than one year from a third party. In contrast, the amount of long-term savings funds more than one year is very small. This is a problem that should be taken seriously by practitioners and stakeholders of Islamic banks in Indonesia.

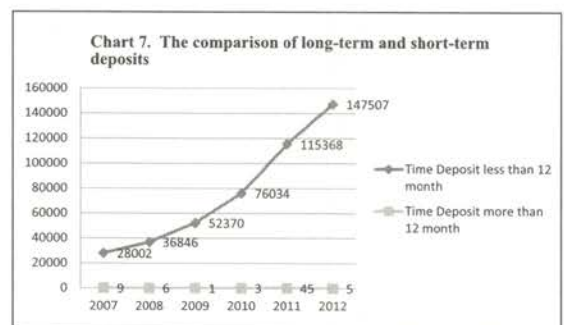
d. Underdevelopment of Islamic bank products

We pointed out in the sections (b) and (c), that there are both unoptimal market segmentation of finance and unoptimal funding structure of current Islamic banks in Indonesia.

However, there are more seriously unbalanced financial structure in Islamic banks in Indonesia at the fundamental level. As will be discussed later in (3.4.1) and (3.4.2), we can confirm that too many of sources of Islamic banks are currently used for the direct financing and that too many of fundings depend on deposits. Synthesizing what we observed above (b and c), it means that the main income source of Islamic banks in Indonesia is the direct financing, especially lending to micro and small enterprises, and the main liability is deposits, especially from short-term deposits funds. We will observe in the next section that utilization of sukuk by Islamic banks is insufficient. This problem relates to the unbalanced funding structure. The current situation makes Islamic



Source: Bank Indonesia, 2013b.



Source: Bank Indonesia, 2013b.

banks in Indonesia unstable and unproductive.

Therefore, the other sources of income and funding are still need to be developed and utilized. This means that in general, the financial products of Islamic banks in Indonesia are still relatively less various. As a consequence, the development of Islamic banking in Indonesia is not fast, too.

As shown above, Islamic banking asset in Indonesia is still small while the assets of Islamic banks in Malaysia are very large. The data also shows that after two decades of operations, Islamic banking still held only a single-digit market share in Indonesia. Some underlying causes of this problem are: (a) The limited involvement of government funds in the Islamic banking industry, (b) The lack of comprehensive understanding among depositors, business partners, and the public with respect to the operation of Islamic banking and the Sharia principles, and (c) The limited number of Islamic banks and Islamic windows of conventional banks compared with conventional banks (Ismail, 2013: 24).

e. Insufficient utilization of Sukuk

Sukuk is a term derived from the Arabic word "*sakk*". *Sukuk* is the plural form of *sakk* which means the document of certificate.

Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) defines *sukuk* as certificates that are evidence of ownership of an asset, which is to be distributed as the right to benefits, and services, or ownership of certain projects or investment activities (AAOIFI, 2013).

Based on the opinion of the national sharia board of Indonesia, Fatwa No. 32/DSN-MUI/IX/2002 which was manifested on September 14, 2002, mentioned that Sharia Securities

(SBSN), both in rupiah and foreign currency, were securities based on Islamic principles (DIF, 2013).

Sukuk in principle is similar to conventional bonds. The main difference between them lies in the concept of reward / profit sharing on the side of Islamic bonds, which is the underlying transaction form (*aqad*) or agreement that is based on Islamic principles. Both governments and companies raise funds through *sukuk*. Concisely speaking, *sukuk* is securities that comply with Islamic principles, which functions like bonds (Warde, 2012: 150).

The first country in the world that used *sukuk* based on *qard Hasan* (interest-free charitable loan) was Malaysia (Piccinelli, 2010: 32). Since then development of *sukuk* in Malaysia has been remarkable and it is now very popular. Total assets of *sukuk* in Malaysia known as the Islamic Debt Securities (IDS) in November 2006 amounted to 122 Billion RM. Since its creation in 2003, the annual rate of expansion averaged 19.3 per cent. Thereafter too, development of Malaysia's Islamic financial market encouraged 22 new *sukuk* in the first half of 2007, representing 31 per cent of Malaysia's domestic corporate bond market. Surprisingly, in Malaysia at the end year 2007, 76 per cent of new private securities debt was approved as *sukuk* (Venardos, 2010: 85).

Sukuk are also used in Islamic retailing finance. *Sukuk* as well as the other few instruments is one of the most important instruments of housing purchases in Islamic financial system. This type of *sukuk* can be used for Muslim minorities in the United States of America, growing middle class in Malaysia, and the poor in some Muslim countries. Demand in this type of *sukuk* always exceeds the funds available (Thomas et

als., 2006: 75).

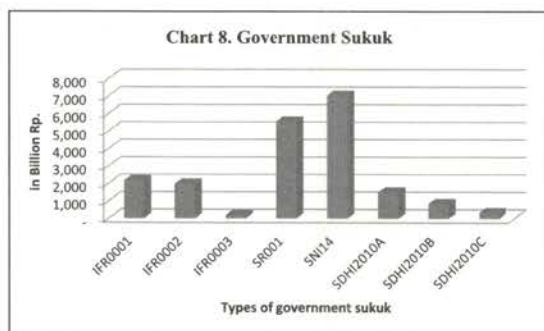
In the global scene, conventional securities markets are predicted to be less functional for three years from 2011, leaving more than U.S. \$ 2 trillion in credit demand unmet. This will provide an opportunity for the sukuk in credit supply (Hassan and Mahlkecht, 2011: 182).

It is difficult to predict the future development of the global sukuk, but the sukuk market seems to be promising with confidence in the near future (Ayman and Richardson, 2007: 409). As a whole, sukuk market is predicted to continue to grow. Islamic financial institutions predict that sukuk market will grow, reaching to the scale of a minimum of U.S. \$ 400 Billion by 2015 (Nazim and Bennie, 2012).

To turn to Islamic banks in Indonesia, however, sukuk has not been fully utilized by them. It is true that Indonesian government promoted sukuk to cover the public budget deficiency. But this trend has not been in tandem with rapid development of sukuk raised by the Islamic banks in Indonesia.

Meanwhile, the international community of Islamic finance began to be interested in sukuk. Sukuk is now considered to have a good level of returns on investment to the banking corporations, compared with saving in the bank. This can also be optimized by Islamic banks in Indonesia to raise their funds.

The Indonesian corporate sukuk has been already outstanding and reached to the amount of 8,837 IDR Billion. On the other hand, sukuk utilized by Islamic banks only amounted to 1,814 IDR Billion. Accordingly, sukuk raised by Islamic banks in Indonesia corresponds to only 18 per cent of corporate sukuk. Sukuk by Islamic banks in Indonesia is still of small scale (OJK, 2013).



Source: Directorate of Islamic Financing, 2013.

Note:

IFR001 = Islamic Fixed Rate, published on August 26, 2008, tenor 7 years.

IFR002 = Islamic Fixed Rate, published on August 26, 2008, tenor 10 years.

IFR003 = Islamic Fixed Rate, published on October 27, 2008, tenor 6 years.

SR001 = Retail Sukuk, published on February 25, 2009, tenor 3 years.

SNI14 = Sukuk Negara Indonesia, published on April 23, 2009, tenor 5 years.

SDHI2010A= Hajj Fund Sukuk, published on May 7, 2009, tenor 1 years.

SDHI2010B= Hajj Fund Sukuk, published on June 24, 2009, tenor 11 months.

SDHI2010C= Hajj Fund Sukuk, published on June 24, 2009, tenor 13 months.

In contrast, Indonesian government sukuk is quite large (See Chart 8). The value is 19,634 IDR Billion.

Chart 8 describes that the government has issued various types of sukuk. In contrast, Islamic banks do not take advantage of sukuk well. The government is rather more active player in the exploitation of sukuk market. However, Islamic banks and the government will be able to work together to develop Islamic banking through sukuk, following the example of Malaysia.

The problem of relatively small market of sukuk raised by current Islamic banks in Indonesia is related with the problem of unbalanced funding structure (see the section c) and of underdevelopment of Islamic bank products (see the section d).

3. Supporting Factors for Intensification of Islamic Banking in Indonesia

3.1. Human resources

It is crucial for the Indonesian people to resolve the problem of lack of human resources in the Islamic banking.

We had better start with a theorem. An excellent understanding is the key for everyone to do something. The consciousness to do something must be basically accompanied with a pleasurable understanding. At present, many Indonesian people do not like saving in any Islamic bank. This occurs because they do not have the appropriate awareness or consciousness. Then why is saving money in Islamic banks so important? We must discuss this point at first.

Saving money in Islamic banks actually has three functions. (1) Security function: the money deposited in Islamic banks obtains guarantees of the Deposit Insurance Agency of Indonesia. It is the same function as in conventional banks, (2) Functions to contribute the national economy in terms of the stability of the financial system in Indonesia. Indonesia is a part of the global conventional financial system that is extremely complex. The complexity of the global and national conventional financial system becomes vulnerable to financial turmoil. The financial crisis often starts with volatility of the currency of a country, which is caused by exogenous conditions. Indonesia has a serious experience of drastic decline in the Indonesian currency from 2,500 IDR per one U.S. dollar, up to 16,000 IDR per one U.S. dollar. Depreciation of currencies causes another bad effect: rise of interest rates. In the financial crisis in Indonesia in 1997, interest rates rose rapidly from 20 per cent to 60 per cent. Harsh increase of interest rates like this, in turn,

causes many banks to become insolvent because their assets decrease quickly: on the one hand, its assets are used to pay interest to customers; on the other hand, customers are unable, if they have liabilities to banks, to pay their loan interest jumped to, for example, 60 per cent.

In general, higher interest rates lead to the increase in bank lending rates. Rising interest rates has a negative impact to the ability of debtors to pay their debts to the banks. Thereby, financial position of banks becomes deteriorated because NPL (non-performing loans) is accumulated. If this happens continually, then many banks will bankrupt as happened in Indonesia in 1997. Many banks that bankrupted in that year disturbed the financial system and the economy of Indonesia. Furthermore, it provided a systemic impact to the financial system of other countries.

But it should be noted that majority of insolvent banks in Indonesia were conventional banks. To the contrary, Islamic banks have the tendency to be still well against fluctuations in currency values and high interest rates. This is because Islamic banks do not use bank interest rates in the banking operations. Islamic banks are also forbidden to buy and sell the money because the transaction of money is censured as having the purpose of gambling.

Thereby, saving money in Islamic banks in Indonesia has an indirect mission for Indonesian citizens to support the stability of the financial system and the economy of Indonesia, delinking itself from bad effects of global conventional financial system, if not perfectly. History has proven that Islamic banks in Indonesia were resistant to volatility in currency and interest rates in 1997.

There are two reasons why Islamic banks in

Indonesia are more resilient to the global financial crisis than conventional ones. First, the Islamic bank financing is still focused on the domestic economy. Second, Islamic banks do not have the level of highly sophisticated and at the same time speculative transactions like large conventional banks (Bank Indonesia, 2013c).

The last function of saving money in Islamic banks in Indonesia is (3) to practice the religion. The religion of Islam has become the religion of the majority of Indonesian people. Saving money in Islamic banks can be interpreted as working on the rules of the religion of Islam through economic activity.

From the observations so far, savings in Islamic banks have three functions (security, contribution to the national economy, and religious practice). Then we can move to next question: How can we save more money in Islamic banks? The answer is already suggested by the theorem: saving money will be accompanied with excellent and exact understandings of Islamic banking. Then how can we understand Islamic banking better? One of the main solutions of it is to supply the enough educational system to the Indonesian people.

Indeed, the introduction of education of Islamic banks is needed. It should start from kindergarten to higher education. As with the top level of education, the government introduced the course curriculum of Islamic banking three years ago. However, the curriculum of Islamic banks currently only exists at the college or undergraduate school of university level. Some college or university has been trying to extend it to masters and doctoral degree with concentration, but the number of the courses is still limited. Still less,

the introduction of Islamic banking in primary and secondary education curriculum does not exist at all.

That is why national education system of Islamic banks is less effective in terms of the understanding and propagation of Islamic banks in Indonesia. It should be extended again until the bottom of the level of education, which is kindergarten. The educational introduction of Islamic banks would be better if it starts from kindergarten to elementary school, junior high school, senior high school, and university (from undergraduate school to doctorate course). It may be a national program if the state has to deal with an economic strategy of constructing the stability of the Indonesia financial system against the instability of global conventional financial system. Hence, it will create well-educated Indonesian citizens who understand Islamic banks well and save their money there. They can recognize the importance of their mission for the state and the religion.

Qualified education system of Islamic banking is one element of socialization of Islamic banking. The socialization also includes bringing up professionals and experts of Islamic banking. Human-resource professionals and experts for Islamic banks are needed. The role played by professionals is supporting the operations of Islamic banks, helping the banking system to function better, and explaining, increasing, and maintaining the credibility of the Islamic banking to the public.

Skilled professionals are extremely important for Islamic banks, because they are required to explain products of Islamic banks to the general public satisfactorily. Through these processes, the correct image about Islamic banks can be formed gradually in the wider

community as an alternative banking system in the future. This is one of the things that need to be strengthened to intensify Islamic banks in Indonesia.

The other resources which are highly important in Islamic banks are Islamic bank experts. The minimal educational qualification of the experts is supposed to be doctorate or Ph.D. (Philosophy of Doctor). The experts can participate in what will be the think tank is of the Islamic banks. They can produce some new discoveries through research, training, articles, and others. The number of experts in the field of Islamic banks is still very limited. Therefore, to propagate the experts through formal education is urgent.

Islamic banking institutions generally acquire the latest technology and facilities that catch up with social change, economic change, and other forces that generally affect the core business of institutions. This supports the principles of organizational learning (OL). OL application mistakes are likely to give fatal impact especially to institutions that are not competitive and less productive, making them survive no longer in the business cycle (Mansor et als., 2010). Doubtlessly, the latest technology and facilities cannot be supplied without professionals and experts.

The government of Indonesia, Islamic banks, stakeholders, and other parties should conduct a socialization program about Islamic banking to the general public more seriously. At present it is not conducted well in Indonesia. There are still many Indonesian people who do not understand Islamic banking, Islamic bank products, and the system of Islamic banks correctly. Besides, introduction of Islamic bank through TV media or newspapers is very rarely attempted.

The socialization of Indonesian Islamic banking is needed. The proper programming of the socialization is very urgent. The socialization of Islamic banking will increase the better understanding of it. The better understanding will encourage every person automatically to use Islamic banks. Thereby, assets of Islamic banks will rise sharply. Profit of financing and other products of Islamic banks will go up rapidly. Furthermore, Islamic banks will be able to be the first choice in the use of banking services among the Indonesian people.

If the Islamic bank has become the first choice of the people of Indonesia in the use of banking services, the Indonesian national financial system will be more stable. Turning again to this point, the historical record shows that Islamic banks in Indonesia were stronger in confrontation with financial and economic crisis that hit Indonesia and Asia in 1997 seriously. For example, Indonesia's first Islamic bank, Bank Muamalat Indonesia, survived in the turmoil of financial crisis and is still standing strong after demise of crisis, while more than 20 conventional banks bankrupted and closed.

One of the proofs of strengths of Islamic banks confronted with the global financial crisis can be seen in the performance of NPF (Non Performing Financing) equivalent to NPL (Non Performing Loan) in conventional banks. During the period of the global financial crisis in 1997–1998 and in the post-crisis period, the Islamic banks were continuously able to perform better than conventional banking institutions in terms of NPF. That of Islamic banks was relatively low. For example, NPF of Islamic banks in 2000 was only 12.96% while NPL of conventional banks was 26.77% (Mahfudz,

2011). Furthermore, ROA (Return on Assets) of Islamic banks was also stable, which indicates that performance of Islamic banking had good durability against bad macroeconomic condition (Nugraheni, 2011). From 1999 to 2004, ROA of Islamic banks was increased from 0.81% to 3.9% while that of conventional banks was dropped sharply from 18.81% to 4.32%. We can add to these performances the fact that Net Profit Margin of Islamic banks was 12.38% and that of conventional banks was 3.38% in 1999 (Mahfudz, 2011).

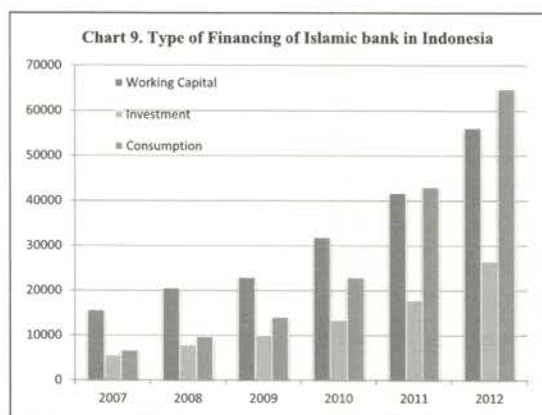
The main reason is that, with respect to financial system, Islamic banking does not use interest, so that the fluctuating bank interest rates in the World, in Asian, and in Indonesia had no direct influence to the Islamic banks. This means that Islamic banks are more resistant to the turmoil in interest rates which is still a reference of conventional banks. Islamic banking institutions do not take interests like conventional banks. The policy results in maintaining the competitiveness of Islamic banks against conventional banks in financing and investment in the midst of crisis. Harsh fluctuations in interest rates on conventional banks are used as a reference to improved performance of Islamic banks in Malaysia (Kaleem and Isa, 2003). Islamic banks are not also significantly affected by foreign-currency fluctuation. This is because foreign currencies are not commodities to be traded in order to gain profits like gambling. Islamic banks are prohibited from making any transactions that have an element of gambling.

3.2. Market segmentation

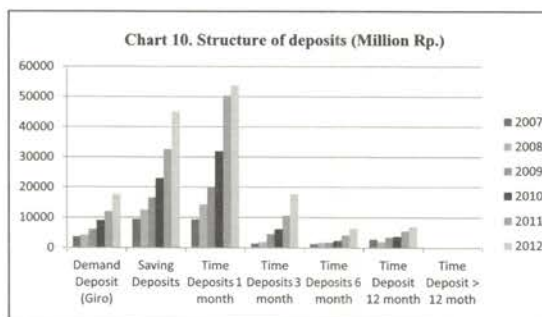
Chart 9 shows that the type of financing for consumption is greater than the two other types of financing such as working capital and

investment in 2011 and 2012. However, this situation cannot be appreciated well, because potential outcome of investment and working capital is probably greater than that of consumption.

This relates to the fact that the main target of the Islamic banks in Indonesia is still micro, small and medium enterprises, as already discussed. Market segmentation like this has resulted in loss of good opportunity to obtain greater profits for a long time. More profits can be obtained from the optimal financing to firms of medium and large scale. Therefore, the target of market segmentation of Islamic bank in Indonesia today should be changed. The ratio of medium and large companies should be further extended.



Source: Bank Indonesia, 2013b.



Source: Bank Indonesia, 2013b.

3.3. Structure of funds

Chart 10 shows that most deposits are composed by short-term funds. All kinds of long-term funds (time deposits > 3 months) from 2007 to 2010 were of less than 10 Billion Rupiah. Indeed deposits over 10 Billion were increasing, but almost all of them belonged to the types of short-term funds (demand deposits, saving deposits, and time deposits < 1 month) even in the years of 2011 and 2012.

The fact that people in Indonesia tend to save money in short-term accounts in Islamic banks is associated with their motivation. The study demonstrates that in general the motivation of people depositing money in Islamic banks is to get ready returns of money (Ika, 2011; Haron and Ahmad, 2000).

The data above shows that the structure of deposits from third-party-majority loses balance. Thereby, Islamic banks in Indonesia would not dare to large corporate financing or long-term financing. Consequently, the Islamic banks in Indonesia are not able to get a great income through the financing to great enterprises (see 3.2). This must be one of the reasons why Islamic bank asset in Indonesia is still small when compared with conventional bank asset in Indonesia. It is below 5 per cent of the conventional banks.

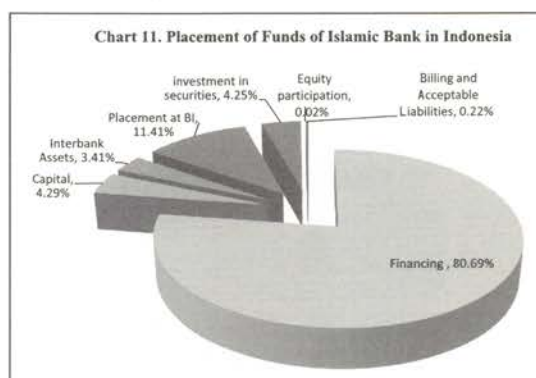
The composition of short-term deposits should be converted into long-term savings fund. One of the aspects that should be improved is public confidence in the Islamic banks. Two approaches are used to improve public confidence. Firstly, the approach of hereafter exists. This approach emphasizes the aspect of spiritual benefits for everyone if he uses Islamic banks. Muslims (especially) who use Islamic banks will be free from Riba (Usury). The Usury is clearly forbidden in

Islam. Therefore, Muslims are using Islamic bank as a means to implement Islamic religious rules on economic activity. Islam is a religion that can give mercy to all mankind. Secondly, the worldly approach. This approach emphasizes the aspect of worldly material benefits to be gained. For example, the benefits may be high yields, safely guaranteed money, satisfactory banking services, and others. Even if the customer is not a Muslim, he could still make a profit in the world as stated above.

3.4. Islamic Bank Products

3.4.1. Products for using funds

Chart 11 explains that the financing (80.69 per cent) constitutes the majority of the placement of funds of Islamic banks in Indonesia. It has a huge dominant ratio. We can find the same structure in the other countries: a research of competitive conditions of Islamic banks in the 13 countries compared with conventional banks which act in the global market shows that Islamic banks allocated the majority of its assets in financing activities when compared with conventional banks (Ariss, 2010). Furthermore, as already stated, the financing of Islamic banks in Indonesia is concentrated on micro and small scale industry.



Source: Bank Indonesia, 2013b.

However, placement of funds can be improved in other areas than financing (lending), such as investment in securities, equity participation, and others. Portfolio in the banking business can be a lot of variations in the balance. This is the strategy of minimizing risk. The principle is balance lest there should be too dominant elements. If balance is maintained, in the event of bankruptcy, it can still be solved by income from other areas, such as investment in securities or equity participation. But it must be recognised that in order to keep optimal portfolio, Islamic banks need various types of markets and products for investment and finance, which are still underdeveloped in Indonesia.

3.4.2. Products for collecting funds

Chart 12 indicates the composition of the funds in Islamic banks in Indonesia, showing that the overwhelming majority is deposits (83.33 per cent). Capital equals to 4.29 percent and interbank liabilities 7.10 per cent, while 1.14 per cent and 1.13 per cent of the funds existing in Islamic banks are derived from securities and received borrowing, respectively. Furthermore, as already stated, deposits in Islamic banks are concentrated upon short-

term ones.

It is obvious that Islamic banks in Indonesia must varify types of funds, such as capital and borrowings. But the problem is also intertwined with the other problem of lack of growth of sukuk (securities) market available to Islamic banks (see 3.5.).

3.5. Utilization of sukuk

Indonesia is now revising regulations on sukuk. Sukuk will be available used not only for the initial investments under certain conditions, but also it can be traded in the secondary market (Venardos, 2012: 148). It is expected that Indonesian investors will soon realize that sukuk issued by Islamic banks can improve the performance of these banks in Indonesia.

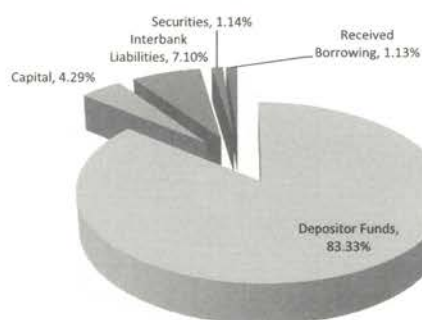
4. Conclusion

There are some supporting factors to intensify Islamic banks in Indonesia, such as: (1) The improved quality of human resources, (2) Optimal market segmentation, (3) Restructuring of funds, (4) Development of Islamic bank products, and (5) Utilization of Sukuk.

The qualified human resources can produce excellent understanding of the Islamic banks for the citizens of Indonesia. The introduction of education of Islamic bank can be started from kindergarten school, to elementary school, junior high school, high school, and university. Socialization of Islamic banks needs to be proceeded seriously and systematically. The number of professionals and experts of Islamic banks through formal and informal education can increase maximally.

Target of market segmentation of Islamic bank in Indonesia today should be changed. It

Chart 12. The fund composition of Islamic Bank in Indonesia



Source: Bank Indonesia, 2013b.

should be focused more on medium and large companies.

The composition of short-term deposits should be converted into long-term saving's funds. Two approaches are used to improve public confidence. Firstly, the approach of hereafter. For the Muslims, using Islamic bank means he has implemented Islamic religious rules on economic activity. Secondly, the worldly approach. This approach emphasizes the aspect of worldly material benefits to be gained, such as high yield and safely guaranteed money.

Islamic banks in Indonesia place 80.69 per cent of their funds in the financing. Placement of funds could be improved in other areas such as investment in securities, equity participation, and others.

The use of sukuk in Indonesia should be activated, not only by the government which uses sukuk actively to cover the majority of the state budget deficiency, but also by the potential promising issuers, Islamic banks, as well as corporations which comply with Islamic rules. This will provide good conditions significantly to the development of Islamic banks in Indonesia. Sukuk will be potentially used by Islamic banks in Indonesia as large a scale as in Malaysia.

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